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ORIGINAL

TOWN OF
PARADISE VALLEY

OFFICE OF TOWN ATTORNEY

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September 28, 2007

Arizona Corporation Commission
DOCKETED

OCT -1 2007

Commissioner Mike Gleason, Chairman
Arizona Corporation Commission
1200 West Washington Street
Phoenix, AZ 85007-2927

DOCKETED BY

nr

AZ CORP COMMISSION
DOCKET CONTROL

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RECEIVED

**Re: Town of Paradise Valley Resolution No. 1156 re Reconsideration of Arizona
Corporation Commission Decision No. 68858**

Dear Chairman Gleason:

In response to concerns raised by a number of Town of Paradise Valley residents and businesses, and in response to requests by some of the Arizona Corporation Commissioners, the Town of Paradise Valley adopted a resolution at its meeting last night to clarify its position on whether Commission Decision No. 68858 should be reconsidered and what the Town believes should be the scope of the issues if such a reconsideration were to occur. A certified copy of the Resolution (# 1156) is attached for your review. I have also attached a copy of the Action Report to the Council that accompanied the Resolution that provides a little more detail as to the reasoning behind the Council's desire to see Commission Decision No. 68858 considered.

As you can gather from the Resolution and the Action Report, the Council believes that the use of surcharges (or tiered rate systems) to encourage conservation is an important goal that should be retained in any new rate structure that may be considered by the Commission. The Council has been advised that a modification of Decision No. 68858 from the use of a contribution in aid of construction (CIAC) rate methodology to a more typical rate base/rate of return method can include a tiered rate structure that incorporates many of the same conservation incentives as the surcharges implemented in Decision No. 68858. Although the rate base/rate of return model may lower the current water bills of all users in the Arizona American Water Company's (the "Company") Paradise Valley Water District ("District") and allow for some return by the Company, it will continue a conservation incentive that will last longer than would be the case with the CIAC method.

One matter that the Council also found important to note is that the use of the rate base/rate of return method will permit the fire flow improvements to be built sooner and thus promote the public safety and welfare for the residents in the District. Should the Commission re-open Decision No. 68858, I have also been instructed to file a Motion to Intervene so that the Town's position on any rate model considered during the re-opened case can be further clarified as may be needed.

Chairman Gleason
September 28, 2007
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Additionally, the Town's Water Committee will be working with the Company to develop incentives for Town properties that become part of a water conservation landscape conversion program. The Town would like to explore such a program for future rate cases, but believes that it is a plan that needs more discussion and planning than is feasible under what it believes should be the limited scope of the reconsideration requested in the Resolution.

Thank you in advance for your interest in the Town's input into the reconsideration of Decision No. 68858.

Sincerely,



Andrew M. Miller
Town Attorney
AMM/dlw

cc:

Commissioner Gary Pierce
Commissioner William A. Mundell
Commissioner Hatch-Miller
Commissioner Kristin Mayes
Tom Martinsen, Town Manager
Docket Control
Dean Miller

When recorded, return to:

Paradise Valley Town Attorney
6401 East Lincoln Drive
Paradise Valley, Arizona 85253

RESOLUTION NO. 1156
A RESOLUTION OF THE TOWN COUNCIL OF THE TOWN OF
PARADISE VALLEY REQUESTING THE ARIZONA
CORPORATION COMMISSION TO RE-OPEN DECISION NO. 68858
ARIZONA AMERICAN WATER COMPANY, PARADISE VALLEY
WATER DISTRICT, DOCKET NOS. W-01303A-05-0405 AND W-01303A-05-0910
PURSUANT TO ARIZONA REVISED STATUTE §40-252.

BE IT RESOLVED:

WHEREAS, on July 28, 2006, the Arizona Corporation Commission ("ACC") issued Decision No. 68858 in the Matter of the Application of Arizona American Water Company, an Arizona Corporation, For a Determination of the Current Fair Value of Its Utility Plant and Property, and For Increases in Its Rates and Charges Based Thereon for Utility Service by Its Paradise Valley Water District;

WHEREAS, pursuant to Decision No. 68858, the ACC authorized the Arizona American Water Company ("Company") to recover the construction costs associated with fire flow improvements ("FFI") via a Public Safety Fire Flow Surcharge and a High Block Usage Surcharge (collectively the "Surcharges"), with such amounts to be accounted for as Contributions in Aid of Construction ("CIAC").

WHEREAS, the Town of Paradise Valley ("Town") believes that the FFI are vitally important to the public welfare and safety of Town residents and could be constructed more expeditiously if a typical rate base/rate of return model were used instead of using a CIAC method;

WHEREAS, the Town believes that one of the ACC's goals in implementing the Surcharges was to encourage water conservation by making the high volume users pay proportionately more for higher monthly water usage amounts;

WHEREAS, the Town agrees that conservation of water resources is desirable and that the use of Surcharges to encourage conservation should be maintained;

WHEREAS, the Town is concerned that recovery of the costs of the FFI via the Surcharges has had the unintended consequence of causing a dramatic rate increase for some residential and commercial customers;

WHEREAS, the Town believes that a modification of Decision No. 68858 for the limited purpose of changing to a typical rate-base/rate of return model instead of a CIAC model and retaining the Surcharges with only a reduction in their amounts based on the use of a rate-base/rate of return model, will not only provide for more expeditious construction of the FFI public safety improvements but will also continue to encourage conservation, including conservation by future customers of the Company;

WHEREAS, the Town Council of Paradise Valley deems it necessary and in the best interest of the residents and businesses of the Town of Paradise Valley to request that the ACC re-open Decision No.68858 pursuant to A.R.S. §40-252 on a limited basis to review and revise the mechanism for recovery of costs associated with the necessary fire flow upgrades in rates.

IT IS THEREFORE RESOLVED THAT the Town of Paradise Valley respectfully requests the ACC to re-open Decision No. 68858 for the limited purpose of reviewing whether a more typical rate-base/rate of return rate model will further the beneficial goals of expeditiously providing needed fire flow improvements, encouraging


water conservation, and fairly distributing the costs of such improvements among the current and future Paradise Valley Water District customers.

PASSED AND ADOPTED by the Town Council this 27th day of September, 2007.




Ed Winkler, Mayor

ATTEST:


Duncan Miller, Town Clerk

APPROVED AS TO FORM

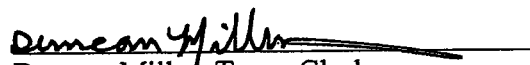

Andrew M. Miller, Town Attorney

CERTIFICATION

I, Duncan Miller, Town Clerk hereby certify that the foregoing is a full, true and correct copy of Resolution Number 1156 duly and regularly passed and adopted by vote of the Town Council of Paradise Valley at a meeting thereof duly called and held on the 27th day of September 2007. That said Resolution appears in the minutes of said meeting, and that the same has not been rescinded or modified and is now in full force and effect.

I further certify that said municipal corporation is duly organized and existing, and has the power to take the action called for by the foregoing Resolution.

TOWN OF


Duncan Miller, Town Clerk

INCORPORATED 1961
PARADISE VALLEY, ARIZONA

TOWN OF PARADISE VALLEY TOWN COUNCIL ACTION REPORT

TO:	Mayor and Town Council
FROM:	Andrew M. Miller, Town Attorney
SUBJECT:	Resolution No. 1156 Requesting the Arizona Corporation Commission to Re-Open Decision No. 68858
DATE:	September 27, 2007

RECOMMENDATION:

It is recommended that the Town Council adopt Resolution No. 1156 requesting that the Arizona Corporation Commission Reopen Decision No. 68858.

DISCUSSION:

The Town of Paradise Valley (Town) Water Committee, over the course of many meetings, had encouraged the Arizona American Water Company (Arizona American) to make Fire Flow Improvements (FFI) in its Paradise Valley Water District (District). Arizona American met with user groups in the District and subsequently requested a rate increase request to the Arizona Corporation Commission (ACC) in 2005-2006, at that time known as Docket No. W-01303A-505-0405 (the "Rate Case"). The ACC staff requested that the Town file an amicus brief in the Rate Case addressing issues related to the Gift Clause in the Arizona Constitution and other matters; and the Town subsequently approved Resolution Number 1125 authorizing the Town Attorney to file such a brief.

On July 28, 2006, the ACC issued Decision No. 68858 in the Rate Case matter, in which the ACC authorized Arizona American to recover the construction costs associated with FFI via a Public Safety Fire Flow Surcharge and a High Block Usage Surcharge (collectively the "Surcharges"), with such amounts to be accounted for as Contributions in Aid of Construction (CIAC). The Town was not aware that the CIAC model was being recommended as the method of paying for the FFI, nor that the use of the CIAC model would lengthen the amount of time over which the FFI would be constructed.

Because the construction of the FFI are vitally important to the safety of Town residents and could be constructed more expeditiously if a typical rate base/rate of return model were used in the Rate Case instead of using a CIAC method, the Town should request that the ACC reopen the Rate Case for the limited purpose of amending Decision No. 68858, so that a typical rate-base/rate of return model be instituted instead of a CIAC model. Using such a model would provide for more expeditious construction of the FFI while still retaining the conservation goals that were part of the reason for utilizing the Surcharges in Decision No. 68858.

The Town desires to encourage conservation, including conservation by future customers of the Company. However, the Town has received a number of complaints from both residential and commercial customers in the PV District that recovery of the costs of the FFI via the Surcharges has had the unintended consequence of causing an unpredicted dramatic rate increase for some residential and commercial customers. Many of the complainants have suggested that the Surcharges should be spread out over time so that future High Block Users (meaning those who have projects in the planning stages at this time) would be subject to the Surcharges and have the same conservation incentive as current High Block Users.

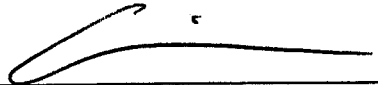
It would appear that a modification of Decision No. 68858 for the limited purpose of changing to a typical rate-base/rate of return model instead of a CIAC model would retain (and expand over a longer time period) the conservation goal of the Surcharges and provide for more timely construction of the FFI. Resolution No. 1156 requests that the ACC make this limited change to Decision No. 68858 and determine whether it will further the mutually beneficial goals noted above. It is respectfully recommended that the Town Council adopt Resolution No. 1156.

FISCAL IMPACT

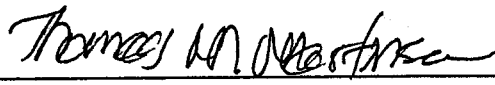
None.

COMMUNITY IMPACT:

Fire Flow Improvements in Arizona American's PV District may be built sooner.



Andrew M. Miller, Town Attorney



Thomas M. Martinsen, Town Manager

Attachment: Resolution No. 1156